

**Report to:** Pension Committee

**Date:** 22 February 2024

**By:** Chief Finance Officer

**Title of report:** Investment Report

**Purpose of report:** This report provides Pension Committee with an update on the investment activities undertaken by the East Sussex Pension Fund.

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## **RECOMMENDATION**

The Pension Committee are recommended to:

- 1) note the investment report;
  - 2) Approve the delegation to the Section 151 Officer to finalise submit the 2023 Stewardship Report to the FRC.
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## **1. Background**

1.1 Under the Local Government Pension Scheme (LGPS) Regulations, the Council is required to maintain a Pension Fund for its employees and other 'scheduled bodies' as defined in the Regulations. The Pension Committee is required to maintain an Investment Strategy Statement (ISS) to govern the Funds' investments and receives a quarterly investment monitoring report, from its investment consultant, Isio.

1.2 The ACCESS Joint Committee was established as the result of changes implemented in the 2016 LGPS Investment regulations to facilitate the arrangements relating to the collective investment vehicles, to allow the administering authorities to pool their respective investments. The ACCESS Joint Committee meets quarterly.

## **2. Investment Workplan**

2.1 Appendix 1 shows a workplan which will act as a reference point of all actions agreed at Pension Committee meetings and the forward investment plan.

2.2 The focus over the next 12 months is:

- Implement the strategic changes in relation to fixed income;
- Implement the strategic changes in relation to income distribution;
- Implement the strategic changes in relation to private debt;
- Monitoring of index link triggers for investment;
- Work to define the case on increasing exposure to index linked gilts;
- Work with ACCESS to develop the governance and investment opportunities on the pool platform;
- Engage with investment managers on the engagement priorities defined in the Statement of Responsible Investment Principles;
- Carry out Carbon Foot printing as at 31 March 2024;

- Carry out the 2024 ESG implementation assessment of the investment managers;
- Produce the 2023 Stewardship report;
- Complete the 2024 PRI survey.

### **3. Quarterly Performance Report**

3.1 Due to the timing of the November meeting the usual Quarterly Performance Report for Q3 2023 was not completed. Isio did provide a summarised version of the report for Pension Committee the full report has now been completed and is attached as Appendix 2.

3.2 The Quarterly report for December has also not been completed in time for the publication for papers. Isio have provided the report as complete as possible attached as Appendix 3 with the detail pages for Ruffer, UBS infrastructure, Pantheon, IFM to follow once complete.

3.3 Since the last reported position, the valuation of the Fund has increased from £4.501bn as at 30 September 2023 to £4.689bn as at 31 December 2023 (an increase of £0.188bn). This performance reflects a positive absolute return of 4.3% in the quarter to December. The Fund also outperformed its benchmark in the period by 0.9%.

3.4 This is on the back of equity markets producing positive performance over the quarter, outperforming most other asset classes. Along with a positive global sentiment driven by a shift in monetary policy expectations away from 'higher for longer', towards projected rate cuts in the short term. UK gilt yields reflected this sentiment, with yields declining towards the end of the quarter, resulting in positive returns. Along with both the US Federal Reserve and the Bank of England keeping base interest rates unchanged at 5.50% and 5.25% respectively during the quarter. Hedged global equities outperformed unhedged equivalents over the period, as the Pound Sterling strengthened against the US Dollar.

3.5 Although performance across the Fund was positive for the quarter for both absolute and relative terms the longer-term performance for 3 and 5 years is positive in absolute terms, however negative in relative terms to benchmark.

3.6 The active impact public equity mandates have continued to struggle relative to their benchmarks over the last 12 months. Private equity mandates have delivered very strong performance over the 3 and 5 year periods, however the performance has been largely negative over the last 12 months.

3.7 Infrastructure has mostly performed strongly over the last quarter except for UBS and Pantheon. Of the managers that have been in place for the longer term, UBS infrastructure has most significantly underperformed its benchmark. This is primarily driven by the disappointing performance of Archmore Fund I.

#### **4. PIRC Local Authority Indicators**

4.1 The Fund receives a report from PIRC looking at a universe of local authority pension funds (63 pension funds with assets under management of £243bn) and provide indicators on performance. PIRC advise that Funds are expected to deliver the best quarterly result on average to December 2023, since Q2 2021. The average Local Authority fund could expect to achieve a return of around 4.6% for the quarter. Average 2023 performance was in the region of 5.5% for the average LGPS fund with three-year performance at almost 4.8% p.a.

4.2 This compares to the Fund's performance at 4.3% for Q4, 5.4% 1 year and 4.9% 3 year.

#### **5. ACCESS Update**

5.1 Since December 2016 the East Sussex Pension Fund has been working with 10 other administering authorities through the investment pooling arrangement called ACCESS. On the 30 September 2023 there was £25.0bn invested in the authorised contractual scheme (ACS) managed by the pool operator, with a further £10.3bn invested in the UBS passive ACCESS governance arrangements.

5.2 As at 31 December 2023 East Sussex had a total of £2.8bn (58.8%) in ACCESS governed investments, £1.9bn across 6 ACS sub-funds and a further £0.6bn through the UBS passive arrangement along with £0.3bn in a pool aligned infrastructure investment.

5.3 The formal Joint Committee was held on 4 December 2023, the following items are highlighted:

- It was agreed that the proposed 2024/25 Business Plan (Appendix 4) should be recommended to ACCESS Authorities.
- The Joint Committee accepted the recommended 2024/25 budget to support the business plan from Section 151 Officers (totalling £1.707m or £155k per council).

#### **6. Stewardship Report**

6.1 At its meeting in November 2023 Committee were advised that the Fund had submitted the UK Stewardship Code report to the Financial Reporting Council (FRC). The expectation was that we would receive the FRC verdict in February.

6.2 The FRC confirmed in January that they would provide an outcome on Thursday, 15 February. At the time of writing, this deadline has not passed but an update will be provided verbally at the meeting.

6.3 Officers are planning to submit the 2023 Stewardship Code in May rather than October 2024, subject to the outcome of the 2022 report.

#### **7. Principles of Responsible Investment (PRI) Report**

7.1 The PRI is the world's leading proponent of responsible investment, as a signatory to the PRI the Fund is required to report annually on the responsible activities that it

undertakes. This represents the largest global reporting project on responsible investments. In turn, signatories receive a summary scorecard (detailed below), an Assessment Report and a transparency report which is publicly available on the PRI website.

7.2 These reports are produced using the signatories' reported information and support signatories to have internal discussions about their practices. They facilitate learning and development by outlining how signatories' responsible investment practices compare year-on-year, across asset classes, and with peers at a local and global level.

7.3 The Assessment Report is an export of the scores for all the assessed indicators and modules the Fund responded to in the PRI Reporting Framework during the 2023 reporting period. The Fund will be analysing the responses to identify activities to undertake to improve on the current scores.

7.4 The Summary Scorecard gives an overview of the Fund's scores against the PRI median score. The Scorecard is shown below which indicates that there are still areas where the Fund can improve but it is currently performing above the median PRI score on all areas.

## Summary Scorecard



7.5 The Transparency Report provides accountability to the Fund by disclosing the responses provided to the PRI plus indicators that the signatory has agreed to make public. The Fund decided to make all responses public.

## 8. Competition and Markets Authority’s (CMA) Investment Consultancy and Fiduciary Management Market Investigation Order 2019

8.1 With effect from 10 December 2019, the East Sussex Pension Fund is required to comply with the CMA Investment Consultancy and Fiduciary Management Market Investigation Order 2019 and set strategic objectives for its investment consultant. This was brought in by the CMA investigation into the investment consultancy and fiduciary market, with the aim for Committees to better assess and evaluate the quality of their investment consultant. It is Part 7 of the order which requires trustees to set strategic objectives for their investment consultant. Specifically, Part 7 states:

8.2 “Pension Scheme Trustees must not enter into a contract with an Investment Consultancy Provider for the provision of Investment Consultancy Services or continue to obtain Investment Consultancy Services from an Investment Consultancy Provider unless the Pension Scheme Trustees have set Strategic Objectives for the Investment Consultancy Provider.”

8.3 The Committee have previously agreed strategic objectives which were updated at the March 21 Committee meeting after the appointment of ISIO, which were prepared with reference to the Pensions Regulator’s guidance, combining a mixture of quantitative and qualitative measures.

8.4 The Fund is required to confirm that they have complied with the requirements over the last 12 months and had objectives in place. This must be re-confirmed on an annual basis. The Fund must submit a ‘compliance statement’ and ‘certificate’ stating that they have complied with the CMA requirement by 7 January annually. This was provided to the CMA on 4 January 2024.

8.5 If the Committee are aware of any failure on their own part to comply with any part of the Order, they must report such non-compliance to the CMA within 14 days of becoming aware of the failure to comply and provide a brief description of the steps taken to address the failure.

## **9. Conclusion and reasons for recommendation**

9.1 Investments are regularly monitored to ensure that the Fund’s strategic asset allocation set out in the Fund’s Investment Strategy Statement (ISS) is being complied with and to keep the Committee informed of any significant concerns with the investment managers, retained to implement the Fund’s strategic asset allocation.

9.2 The Pension Committee are recommended to note the Investment Report and to approve the delegation to the Section 151 Officer to finalise submit the 2023 Stewardship Report to the FRC

**IAN GUTSELL**  
**Chief Finance Officer**

Contact Officer:  
Email:

Russell Wood, Pensions Manager Investments and Accounting  
[Russell.Wood@eastsussex.gov.uk](mailto:Russell.Wood@eastsussex.gov.uk)